

COMMONWEALTH OF MASSACHUSETTS
Department of Telecommunications and Energy

RESPONSE OF THE ATTORNEY GENERAL TO THE
FIRST SET OF INFORMATION REQUESTS FROM THE
WESTERN MASSACHUSETTS ELECTRIC COMPANY
D.T.E. 04-40/04-109/05-10

Dated: September 2, 2005

Person responsible: David J. Effron

DTE-AG-1 Please refer to page 6 of the pre-filed testimony of David J. Effron. Explain how “the inclusion of the new debt in the capital structure increases the transition charge revenue requirement even more.”

Response:

As the cost of debt is less than the cost of equity, the inclusion of the new debt in the capital structure reduces the applicable rate of return. Because the rate of return is applied to a credit balance, the lower rate of return leads to a lower return credit to the fixed component of the transition charge (Exhibit MJM-3, Page 2, Column B(1) in the years after 2000), which in turn increases the transition charge revenue requirement. As an example, refer to the response to AG-01-06, Page 5 Column (d).